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DEPT FOR WHA/AND AND EB/OMA  
TREASURY FOR STEPHEN GOOCH

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SUBJECT: Few New Details in Debt Commission Report

Ref. 06 Quito 2998

1. (SBU) Summary. At a press conference to issue a report on Ecuador's external debt, a member of the presidential debt audit commission insinuated that some of the debt was "illegal and illegitimate." The report itself is critical of external debt, arguing that debt has hindered rather than helped Ecuador's development. However, it does not identify any particular debt issuance as illegitimate or specifically mandate any radical actions. End summary.

2. (U) On December 10, the Debt Commission appointed by President Palacio issued its report on external debt (reftel). At the press conference, Leonardo Vicuana (who has been named by President-elect Correa to head the Ecuadorian Development Bank) said that "our investigation insinuates the illegality as well as illegitimacy of these processes of indebtedness. This merits going on to the next step, which is the auditing of these cases, which was not our objective."

3. (SBU) However, the report itself does not make any judgment on the legitimacy of Ecuador's debt. It is highly critical of the role and impact of Ecuador's foreign debt, with a long litany of complaints. Among them: Ecuador has paid out more in debt servicing than it has borrowed; most recent debt was incurred to service older debt; little debt has been targeted for social problems, and much of that has been poorly used; social indicators have not improved; the state assumed private-sector debt; debt servicing is a heavy burden on the budget; and there is a negative correlation between borrowing and economic growth and investment. Conveniently, it ignores the deep discounting of debt that has occurred at various times over the past two decades associated with renegotiation of various commitments.

4. (SBU) The Commission's summary of recommendations starts by calling for the institutionalization of the investigation, treatment and control of foreign debt. It then veers off of its mandate and calls for the creation of a regional currency managed by a South American Central Bank but in the interim recommends the continued use of the U.S. dollar, along with the Euro, in Ecuador. It then goes further astray by calling for the organization of a new state entity whose "functions interact and are responsible for national administration," and then endorses President-elect Correa's call for a National Constituent Assembly.

5. (SBU) Comment. In December Economy Minister-designate suggested that the Correa administration might look to the report for guidance on determining whether some external debt is illegitimate. The report, drafted in part by Correa's colleagues, reaffirms Correa's negative view on debt, but otherwise we suspect it will be a non-factor in shaping Correa's debt policy. The

published report summary identifies no actionable information. The issuance of the report, even with Vicuana's relatively provocative comment, received only moderate press coverage, and we suspect there won't be much continued interest. The report itself is a rather dull iteration of complaints, and the recommendations are either self-evident or irrelevant to the question of debt.

Jewell